Mission
We’re your insurance company, protecting you, your family and your community

Vision
Achieve the safest roads in Canada while caring for customers

Values
Integrity – doing the right thing (by being accountable, honest, trustworthy and fair)
Caring – understanding that empathy, courtesy and respect make an impact
Innovation – transforming how we do things today for an even more successful tomorrow

About the Saskatchewan Auto Fund
The Saskatchewan Auto Fund is the province’s compulsory auto insurance program, operating the driver’s licensing and vehicle registration system. The Auto Fund is designed to be financially self-sustaining over time. It does not receive money from, nor pay dividends to, the government. Saskatchewan Government Insurance (SGI) is the administrator of the Auto Fund.
2017-18 SASKATCHEWAN AUTO FUND ANNUAL REPORT
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Letter of Transmittal

Regina, Saskatchewan
July, 2018

The Honourable W. Thomas Molloy, O.C., S.O.M.
Lieutenant Governor of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the 12-month period ended March 31, 2018, including the financial statements in the form required by the Treasury Board and in accordance with The Automobile Accident Insurance Act.

Respectfully submitted,

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance
Minister’s Message

My role as Minister Responsible for Saskatchewan Government Insurance (SGI) is varied and interesting, but most rewarding to me is the opportunity to be a part of work to make our roads safer.

Improving safety on our roads and highways remains a top priority for the province and together we – SGI and our government – are dedicated to this effort.

In February, I had the honour of announcing a significant sign of progress: in 2017 there was a historically low number of traffic fatalities; 25 fewer people lost their lives on Saskatchewan roads compared to the previous year, the lowest number of traffic fatalities in this province in over six decades. While this milestone is encouraging, 100 Saskatchewan families went through an unnecessary, tragic loss in 2017. This number is still far too high.

We are serious about curbing Saskatchewan’s impaired driving problem, which is why we brought in harsher penalties for repeat impaired drivers and introduced tougher consequences for impaired drivers who transport children. We also introduced The Vehicles for Hire Act, opening up the possibility of ridesharing services in the province – another option to get customers home safely.

We are reassured that strengthened traffic safety legislation in 2014, 2016 and 2017, increased enforcement of those laws, along with impactful awareness campaigns, like SGI’s award-winning People Shouldn’t Disappear and Be a Good Wingman, have helped reduce the number of people killed and injured in collisions. Ultimately, though, the credit goes to the people of Saskatchewan for making the decision to drive safely, and to the businesses who stepped up and encouraged, or even provided, safe rides home for their customers.

The fight against impaired driving is a team effort and, true to Saskatchewan’s nature, the entire province is getting behind the need for change. We are thankful for the widespread support and together, the people of Saskatchewan can make a difference by always remembering to “Be a Good Wingman” and never let impaired friends and family drive.

The photo speed enforcement pilot had another encouraging year in 2017-18 as motorists continued to choose to slow down. Early results show this translated into fewer speed-related collisions and injuries in photo-speed-enforced zones.

In 2017-18 our government passed legislation to help keep roads safe for tow truck operators and other roadside assistance vehicles. Tow trucks are now permitted to use blue lights in conjunction with their existing amber lights. This increases their visibility and heightens awareness, while making roads safer for operators and the public.

Looking ahead, SGI is preparing for legalization of cannabis and what that will mean for traffic safety. To get ready, our government announced Saskatchewan is taking a zero-tolerance stance against drug-impaired drivers, and we are updating legislation and consequences under The Traffic Safety Act impacted by federal law changes.

We have a way to go yet to achieve our goal of having the safest roads in Canada, but I’m proud of the achievements over the past year.
The Auto Fund continues to be well run. SGI's ability to bring administrative costs down while maintaining quality customer service demonstrates the value it continues to provide to the people of Saskatchewan. Strong investment earnings in 2017-18 also contributed to SGI's financial stability. The Auto Fund is in a positive financial position and prepared for any major storms or market changes.

Thank you to everyone at SGI, from the Board of Directors to the employees and motor licence issuers. You have kept the people you serve top of mind – making improvements to ensure quality customer service, while diligently working to make our roads safer for everyone who travels them.

I am pleased to present the 2017-18 Saskatchewan Auto Fund Annual Report.

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance
Chair’s Message

The Saskatchewan Auto Fund had an impressive year in 2017-18, marked by strong financial results, real progress on the traffic safety front and continued commitment to a positive customer experience, all while maintaining among the lowest automobile insurance rates in Canada.

The primary reasons SGI works to promote traffic safety is to save lives and prevent injuries. However, preventing collisions also reduces claim costs, lowering costs of the program for customers. In 2017-18, this work began to show real impact – in lives saved, injuries prevented and resulting lower claim costs. It is one component of a very good financial picture this fiscal year.

A well-diversified, well-managed investment portfolio also contributed to the Auto Fund’s stable financial position in 2017-18.

This positive position was further reinforced by SGI’s ability to reduce administrative costs by $3.7 million, all the while maintaining the level of customer care Saskatchewan people expect and deserve.

I thank the Board of Directors for their stewardship of the company over the past year, and I commend the management and staff of SGI for their efforts, which contributed to a very solid year.

The Board of Directors welcomed an additional member, Foster Weisgerber, in 2017-18. We appreciate the knowledge and expertise Foster brings to the Auto Fund and look forward to his contributions in the years to come.

And I also thank the Honourable Joe Hargrave for your unwavering support, and especially for your exceptional commitment to traffic safety. The Board of Directors and the Auto Fund appreciate your dedication to keeping this company strong, and to keeping Saskatchewan people safe.

Arlene Wiks
Chair, SGI Board of Directors
President’s Message

2017-18 was a year of persistent and focused work towards the Auto Fund's goal of contributing to Saskatchewan having the safest roads in Canada, while also being responsive to customer needs. This commitment helped save lives, prevent injuries and keep automobile insurance rates among the lowest in Canada. As we start to see signs of progress with fewer lives lost in collisions in 2017, we are also reminded that there is still work to do as there are still far too many who lose their lives or are hurt in vehicle collisions in Saskatchewan.

Strengthened legislation in 2014, 2016 and 2017 contributed to the lowest number of traffic fatalities in more than six decades. Over the past few years, Saskatchewan has brought in tougher penalties for both alcohol- and drug-impaired drivers, made safety improvements to the Motorcycle Graduated Driver Licensing program and introduced bigger discounts for safe drivers and tougher penalties for dangerous driving behaviours through changes to the Safe Driver Recognition program. The cellphone law was also expanded so law enforcement could crack down on distracted drivers.

Strong laws don't have much impact without strong enforcement of them. SGI works closely with the Ministries of Justice and Corrections and Policing, and with law enforcement agencies, to support their efforts to put Saskatchewan's strong laws to good use, by apprehending those who don’t respect them. I thank our Justice and law enforcement partners for their strong focus on road safety over the past several years.

Along with strengthened laws and strong enforcement, awareness campaigns like Be a Good Wingman and People Shouldn’t Disappear successfully appealed to the emotions of Saskatchewan people. People Shouldn’t Disappear featured the real, tragic consequences of impaired driving and its message quickly spread throughout the province. High-profile campaigns are supported by impressive efforts at the community level – by service groups, responsible businesses and dedicated individuals. The amount of hours and efforts that people in this province put into making our roads safer is truly impressive.

And it is now apparent that Saskatchewan’s attitude toward traffic safety in general, and impaired driving in particular, has started to shift. More and more people are making plans to get home safely. It is rewarding to see this shift in thinking. We are grateful to those who are making those responsible decisions.

We are very hopeful that reductions in fatality and injury numbers in the past year are the beginning of a sustained, downward trend. However, there are still too many people killed and injured on Saskatchewan roads, and we can, and must, do more. SGI is exploring new partnerships, and strengthening existing ones, to enhance research on impaired driving and explore new ways to end it.

In the next year, tough consequences will be in effect as Saskatchewan takes a zero tolerance stance towards drug-impaired driving for all drivers in the lead-up to cannabis legalization. To help police determine drug impairment, SGI funded Drug Recognition Evaluator training for about 20 additional officers. The Auto Fund also persisted in tackling distracted driving with research and awareness campaigns. This is a dangerous problem that we seriously need to curb. SGI was also instrumental in other traffic safety measures over the year, including legislation allowing highly visible blue lights for tow trucks and other roadside responders, as well as continued work on the photo speed enforcement pilot.

Financially, the Auto Fund was on solid ground in 2017-18. In the past 12 months, a well-diversified and well-managed investment plan led to strong investment earnings of $162.8 million. Saskatchewan drivers can rest assured that the Auto Fund is financially stable; an increase of $210.1 million to the Rate Stabilization Reserve shows we are steady and in a position to handle sudden weather-related claims or investment market downturns.
Auto Fund staff worked hard over the past year to ensure customers had effective, easy and satisfying interactions with the company. Our customer measurement scores told us customers rank their experiences with us positively; we anticipate recent enhancements will build on that. This included work that brought driver testing to La Loche, saving residents of that community – as well as those in nearby Clearwater Dene Nation – the 100-km trip to Buffalo Narrows to take a road test. SGI also launched its fully redesigned and mobile-friendly website in early 2018, taking a customer-first approach. We recognized the website is a first source of information, and organized it by top jobs. Now, with a more intuitive, task-based navigation, and clear and concise language, customers can find what they’re looking for more quickly and easily. The project was a big undertaking but well worth the effort to serve our customers better.

We also improved the claim process in 2017-18 to ensure submitting a claim is as easy as possible for our customers. We moved to a provincial call centre for claims to improve our response time, so when a customer calls in to report a claim, they are connected with the first available SGI claims person regardless of where that staff member is located. That means customers are not on hold waiting to talk to claims staff in the customer’s specific, local area. Customers continued to enjoy an earlier improvement to our claim process, with the option to take their vehicle directly to an autobody repair shop for certain types of claims (instead of coming to SGI) – in 2017-18, 34% of all claims were handled this way. Our partnerships with these shops help us handle vehicle appraisals while giving customers choice and convenience. For 15 years SGI and Saskatchewan Polytechnic have also had a relationship that helps train more autobody technicians. In the end, these improvements and partnerships help customers get back on the road faster.

The Auto Fund has also transitioned to dedicated adjusters for specific claims. Total loss adjusters are experts on vehicles with a higher degree of damage and, with their knowledge base, the process is quicker, smoother and gives customers a more positive experience. Specialized personal injury representatives now work with families when they lose a loved one in a traffic collision. The specialist is there throughout the claim to make it as easy and stress-free as possible for families who may be grieving and overwhelmed in the aftermath of tragic circumstances. We also streamlined processes to distribute death benefits to families more quickly.

Businesses with commercial vehicles also saw improvements to their customer experience, as the maximum discount under the Business Recognition Program was increased by 5%. Starting in May 2017, a business with a good claim history now receives up to a 15% discount on their basic vehicle insurance. This is an incentive that pays off for both safe businesses and Saskatchewan people, as it helps to keep roads safe.

In 2017-18 the Auto Fund experienced a slightly higher year for weather-related claims, totalling $33.6 million. Hail was the worst culprit throughout 2017-18 with the largest storm hitting Saskatoon and area in June. Compared to 2016-17, damage claim costs were up due to an increase in the number of auto theft and auto glass claims, as well as rising repair costs. Injury claim costs were lower than 2016-17 because of a decline in severe injury claims and a lower-than-projected cost for long-term care and income replacement benefits. Overall, the Auto Fund had an average year for claims.

2017-18 was another positive year for the Auto Fund with continued improvements to traffic safety and customer care, backed by financial stability. A sincere thank you goes out to our employees, motor licence issuers, management and Board of Directors for another strong and committed year. Thank you so much for all the work you do.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
As Administrator of the Saskatchewan Auto Fund
Management’s Discussion and Analysis

The following management’s discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to May 30, 2018. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 31, 2018, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (the Auto Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, financial results, risk management and an outlook for the coming year. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding the Saskatchewan Auto Fund objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible. However, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on the Auto Fund's forward-looking statements, which apply only as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the Auto Fund's or the administrator's behalf.

The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed The Saskatchewan Government Insurance Act, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of licensed Saskatchewan vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under The Automobile Accident Insurance Act (AAIA). The Auto Fund was established effective January 1, 1984, by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.
The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, basic minimum liability insurance required to operate a vehicle, and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance package also includes injury coverage that provides an option to choose between No Fault Coverage and Tort Coverage. This basic insurance package allows a currently registered vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, The Traffic Safety Act, The All Terrain Vehicles Act and The Snowmobile Act (the Acts) along with related regulations created by these Acts. The Auto Fund is also subject to legislation contained in The Crown Corporations Act, 1993 and Part IX of the Insurance Companies Act (Canada) regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in The Freedom of Information and Protection of Privacy Act and The Health Information Protection Act. It also has administrative, enforcement and other related duties under other provincial acts and regulations, and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

Financial results for the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. Financial results for the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as required by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

The Auto Fund, at March 31, 2018, had 372 motor licence issuers in 276 communities across Saskatchewan. It also operates 20 claims centres and six salvage centres in 13 communities across the province along with seven licence issuing branch offices. The Auto Fund's business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

The Auto Fund's quarterly and annual reports are available on SGI's website at www.sgi.sk.ca. Navigate to About Us and then click on “Financial Statements.”

The Environment the Auto Fund Operates In

The Auto Fund's customers are Saskatchewan residents. It provides all residents with automobile injury coverage and a choice between a no-fault or tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP), whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

1 This and other terms are defined in the Glossary of Terms beginning on page 63.
The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 812,000 drivers and approximately 1.2 million vehicles and trailers in Saskatchewan. Business partners include independent motor licence issuers, autobody repairers, law enforcement agencies and healthcare providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering Saskatchewan residents low rates, the Auto Fund does face challenges. Claim costs represented 81.9% of the Auto Fund's costs for the year ended March 31, 2018. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 5.9%, while personal injury costs have grown at 0.2% annually.

New and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles and auto part prices, along with auto repair labour rates, continue to rise. As a result, damage claim costs continue to climb as repair costs outpace inflation.

The severity of injury claims continues to grow each year; however, recent growth is slower than in the past. In recent years, the frequency of severe injury claims has been declining, while the frequency of minor injury claims has increased. Overall injury costs have stabilized; however, it is too early to know if this trend will continue. Injury claim costs are significant to the Auto Fund and continue to be monitored closely.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition (BR) programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. Changes were made to the SDR program in October 2016. The maximum discount will increase by 1% over five years to a maximum of 25%. The BR program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. Changes were made to the BR program scale of discounts and surcharges in May 2017, which increased the maximum discount available to 15%. For the year ended March 31, 2018 these discounts represented savings to customers totaling $144,176,000 (March 31, 2017 – $134,738,000).
Strategic Direction

The Auto Fund’s mission, vision and values are:

**Mission**
We’re your insurance company, protecting you, your family and your community

**Vision**
Achieve the safest roads in Canada while caring for customers

**Values**
- **Integrity**: Doing the right thing (by being accountable, honest, trustworthy and fair)
- **Caring**: Understanding that empathy, courtesy and respect make an impact
- **Innovation**: Transforming how we do things today for an even more successful tomorrow

Corporate Goals and Measures

The Auto Fund had three key goals in 2017-18:

- Prevent deaths, injuries and property damage caused by traffic collisions;
- Develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value; and,
- Enhance foundational business structures and processes, and develop employees to optimize delivery of the strategic plan.

The Auto Fund uses a balanced scorecard approach to monitor performance towards these corporate goals and provide a balanced evaluation of key financial and operational results. The Auto Fund’s balanced scorecard uses four perspectives: financial, customer, internal processes and organizational capacity. The balanced scorecard is reviewed annually to ensure continued alignment with the Auto Fund’s corporate strategies.

**Financial**
The Auto Fund measures financial results through rate adequacy:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017-18 Target</th>
<th>2017-18 Result</th>
<th>2018-19 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Fund rates adequate for package of coverage and services</td>
<td>63%</td>
<td>35%</td>
<td>98%</td>
</tr>
</tbody>
</table>

Legend: ● achieved ○ not achieved

*Auto Fund rates adequate for package of coverage and services*
To achieve fairness in rating, the Auto Fund has committed to eliminate cross-subsidization between vehicle classes. This means each vehicle class would pay sufficient premiums to cover its claim costs. To accomplish this, an annual analysis is performed to determine if a vehicle class is rate adequate, or if an increase or decrease is required. The percentage of rate adequate vehicles is a measure of the number of vehicle types that are within 5% of the adequate rate.
The Auto Fund's long-term goal is to achieve rate adequacy for 98% of the vehicles it insures. Progress toward this goal was negatively impacted in 2015 by changes to the national vehicle rate groups that are set and maintained by the Insurance Bureau of Canada. As well, the Auto Fund did not take forward a full program to rebalance rates in 2015, 2016 or 2017. As a result, the proportion of vehicles within 5% of the adequate rate fell to 35%. The target for 2018-19 is rate adequacy for 98% of vehicles.

**Customer**
The Auto Fund evaluates success with customers by its ability to provide them with a positive experience and improve traffic safety throughout the province:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017-18 Target</th>
<th>2017-18 Result</th>
<th>2018-19 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer experience</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer experience index</td>
<td>76</td>
<td>● 74</td>
<td>77</td>
</tr>
<tr>
<td>Among the lowest personal auto insurance rates in Canada</td>
<td>Among the lowest two</td>
<td>● Second lowest</td>
<td>Among the lowest two</td>
</tr>
<tr>
<td><strong>Traffic safety</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in injuries and fatalities over baseline</td>
<td>20% reduction</td>
<td>● Injuries: 5,253 (24%)</td>
<td>28% reduction</td>
</tr>
<tr>
<td>(Injury baseline: 6,867; Fatalities baseline: 158)</td>
<td>Injuries: 5,494</td>
<td>● Fatalities: 107 (32%)</td>
<td>Injuries: 4,944</td>
</tr>
<tr>
<td>Fatalities: 126</td>
<td>Fatalities: 114</td>
<td></td>
<td>Fatalities: 114</td>
</tr>
</tbody>
</table>

Legend: ● achieved ○ not achieved

**Customer experience**
The Auto Fund used two measures to evaluate customer experience: the customer experience index and maintaining among the lowest personal auto rates in Canada.

With a focus on enhancing the overall experience being provided to customers, the company uses a customer experience index to assess what customers think of their interactions and relationship with the company. A combined Auto Fund and SGI CANADA score is used, as Saskatchewan customers do not differentiate between the two companies. A score of 74 was achieved, in effect meeting the 2017-18 target of 76. The 2018-19 target is 77, continuing to move towards the long-term goal of achieving an index score of 80.

As a public auto insurer, maintaining low and stable insurance rates is critical to providing a positive customer experience and remaining relevant. Public insurance companies exist to provide affordable coverage to residents. The Auto Fund completes regular cross-Canada rate comparisons to determine how much a vehicle owner would pay for auto insurance in other Canadian provinces given their current vehicle, driving record and claim history. The Auto Fund aims to maintain among the lowest auto insurance rates in Canada, without compromising other important targets, such as the Minimum Capital Test. The Auto Fund achieved this in 2017-18 with the second lowest personal auto rates in Canada.

**Traffic safety**
Customers value the Auto Fund's role in promoting traffic safety in the province. Over the years, SGI has evolved into a national leader in the area of road safety programs. The Auto Fund's traffic safety goals are simple and clear – prevent deaths and injuries due to traffic collisions by addressing driver, vehicle and road safety issues. As fewer collisions result in lower claim costs, work in this area also supports the goal of maintaining low rates.
The Auto Fund would ultimately like Saskatchewan’s roads to be the safest in Canada. By Saskatchewan Day 2020, the Auto Fund is targeting a 30% reduction in injuries and fatalities on Saskatchewan roads over the baseline set using the 2010 – 2014 July to June averages. The Auto Fund, and the people of Saskatchewan, exceeded the 2017-18 targeted reduction of 20% with 24% fewer injuries and 32% fewer fatalities. This translates into 1,614 fewer injuries than the baseline, and 51 fewer fatalities. These results may indicate a downward trend in traffic injuries and fatalities, but it is too soon to know if a statistically sound trend has been established. In 2018-19, the Auto Fund is targeting a 28% reduction from the baseline, or 4,944 injuries and 114 fatalities.

**Internal processes**

Efficiency and productivity are key to assessing the success of the Auto Fund's internal processes:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017-18 Target</th>
<th>2017-18 Result</th>
<th>2018-19 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency and productivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expense ratio</td>
<td>6.1%</td>
<td>5.4%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Legend: ● achieved  ○ not achieved

**Efficiency and productivity**

In 2017-18, efficiency and productivity were measured based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. Administrative expenses are largely related to salaries and benefits, information technology and facilities costs. The Auto Fund achieved its 2017-18 target, realizing a 5.4% administrative expense ratio, which is lower than the target of 6.1%. Analysis of administrative expenses is provided in more detail in the 2017-18 Financial Results section.

The Auto Fund's 2018-19 target is an administrative expense ratio of 6.3%. This is 0.9% higher than the 2017-18 result due to higher administrative expenses budgeted for investments in information technology and innovation projects.

**Organizational Capacity**

The Auto Fund's ability to deliver on its corporate strategy is dependent on employees and maintaining an adequate level of capital. As such, organizational capacity is measured based on employee engagement and capital adequacy:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017-18 Target</th>
<th>2017-18 Result</th>
<th>2018-19 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement score compared to the Canadian public sector norm</td>
<td>Non-reporting year</td>
<td>Non-reporting year</td>
<td>1 point improvement</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Capital Test</td>
<td>103%</td>
<td>141%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Legend: ● achieved  ○ not achieved
Employee engagement

A positive employee experience is essential to achieving the Auto Fund's corporate objectives. One way to measure this is through employee engagement, using a biennial employee survey conducted by an external vendor. The survey includes employees performing work for both SGI CANADA and the Auto Fund. An employee engagement score, derived from SGI's employee survey, is used to measure an employee's emotional and intellectual commitment to the Corporation. The employee engagement survey was not conducted in 2017-18, but will be conducted in 2018-19. The long-term goal continues to be a score at or above the Canadian public sector norm.

Capital adequacy

Capital adequacy speaks to the Auto Fund's ability to honour its financial obligations. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR. The MCT is a capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund's 12-month rolling average MCT score of 141% was above the 2017-18 target of 103% and the long-term goal of 100%. At March 31, 2018, the actual, non-rolling MCT was 147%. The Auto Fund's 2018-19 target is an MCT of 100%.

Capability to Execute Strategies

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. With many long-term employees and a low staff turnover rate, the Corporation has significant expertise in core areas, including licensing and registration, driver and vehicle safety services, and claim handling, as well as within the support areas. The challenge is to continue to recruit, develop and retain the best people to ensure the longevity, growth and maintenance of operations.

The Corporation has implemented a number of programs including competency-based recruitment, training and leadership development programs and knowledge transfer plans. As well, it assists employees in understanding and adapting to change, with a focus on employee engagement and empowerment. SGI's succession planning process focuses on: (i) ensuring current senior management positions have succession plans; (ii) identifying high performing staff who have potential for more senior roles; and, (iii) ensuring high-potential staff and the leadership team have ongoing development and support.

On December 31, 2017, the collective bargaining agreement between SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), expired. Negotiations are currently underway to reach a new agreement. SGI has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.
Motor licence issuers
The Auto Fund provides accessibility for customers by distributing products through a network of 372 independent motor licence issuers in 276 communities across Saskatchewan, and seven SGI branch offices throughout the province. The majority of motor licence issuers’ interests are represented by the Insurance Brokers’ Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed-upon principles, such as fostering better communication between both groups, recognizing the value of each other’s roles to provide service to Saskatchewan people and partnering on traffic safety programs.

Technology and systems
The Auto Fund relies on technology and information systems to deliver products and services to the motoring public. The Auto Fund operates using a sophisticated information system that gives it the flexibility to respond to customer needs and industry changes. Auto Fund products are widely accessible to customers through an online system in issuing offices throughout the province, and customers can perform many transactions through MySGI online services.

Capital and liquidity
As the Auto Fund belongs to the Province of Saskatchewan, legislation restricts how it can raise capital and mandates the benefits available to policyholders. The Auto Fund does not pay dividends to or receive money from the province nor from SGI, the administrator of the Auto Fund. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it uses premiums and fees from operations, along with income generated from its investment portfolio, to fund operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel reviews rate changes and then passes on recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the RSR gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occurs, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common industry measurement called the MCT to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Auto Fund maintains a Capital Management Policy that applies an amount to move towards its MCT target of 100% in small increments with each rate program. The policy determines the amount of capital adjustment needed with each rate program by applying an amount to either recover one-fifth of the capital below 100% MCT or release one-fifth of the capital above 100% MCT into the basic insurance rate every year. As such, the rate always includes a portion designed to move the RSR towards an adequate level, and avoids the volatility a surcharge might create, assuming rate programs are annual or close to annual. This method is consistent with private insurers that build cost of capital requirements into each regulatory rate filing.

The policy also considers whether overall capital needs have changed. As claim liabilities and investment assets grow, the need for capital to support the business also increases. With each rate program, SGI analyzes actual results and brings forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, with this policy in place, only minor adjustments will be needed to address capital needs in subsequent rate programs.

At March 31, 2018, the MCT ratio was 147%, and the 12-month rolling average MCT ratio was 141%.
2017-18 Financial Results

For the year ended March 31, 2018

Overview
The Auto Fund experienced an increase to the Rate Stabilization Reserve (RSR) of $210.1 million. Operating results were strong due to solid investment returns.

The Auto Fund generated investment earnings of $162.8 million in the 12 months ended March 31, 2018. Results were driven by strong foreign equity returns and real estate. Strong investment earnings in recent years have rebuilt the Auto Fund’s capital base to an adequate level, although earnings are not expected to persist at these high levels in more normalized equity markets or a rising interest rate environment.

With the $210.1 million surplus, the RSR improved to $776.0 million and the MCT to 147%.

Statement of Operations

<table>
<thead>
<tr>
<th>Premium revenue</th>
<th>2018 (thousands of $)</th>
<th>2017 (thousands of $)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums written</td>
<td>937,308</td>
<td>933,530</td>
<td>3,778</td>
</tr>
<tr>
<td>Premiums ceded to reinsurers</td>
<td>(9,665)</td>
<td>(8,576)</td>
<td>(1,089)</td>
</tr>
<tr>
<td>Change in unearned premiums</td>
<td>2,709</td>
<td>(2,428)</td>
<td>5,137</td>
</tr>
<tr>
<td>Net premiums earned</td>
<td>930,352</td>
<td>922,526</td>
<td>7,826</td>
</tr>
</tbody>
</table>

Net premiums earned for the year ending March 31, 2018 totalled $930.4 million, representing an increase of 0.8% over the prior year. The increase is a combination of customers moving to vehicles with higher premiums and exposure growth. The number of vehicle insured years increased by 0.4% during the year to 937,399 from 933,738.

The Safe Driver Recognition (SDR) and Business Recognition (BR) programs continue to return dollars to Auto Fund customers each year. To March 31, 2018, these programs returned $144.2 million to customers through safe driving discounts, compared to $134.7 million for the same period in 2017. Expressed as a percentage of vehicle premiums, this equates to an average discount of 13.4% for 2018 (2017 – 12.6%). Maximum discounts increased to 15% for the BR program on May 1, 2017, and increased to 23% on January 1, 2018 for the SDR program.
## Claims incurred

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net claims incurred</td>
<td>787,866</td>
<td>798,005</td>
<td>(10,139)</td>
</tr>
</tbody>
</table>

The following table details claim costs by categories:

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Damage claims, excluding storm claims</td>
<td>554,553</td>
<td>527,467</td>
<td>27,086</td>
</tr>
<tr>
<td>Storm claims</td>
<td>33,636</td>
<td>26,696</td>
<td>6,940</td>
</tr>
<tr>
<td>Total damage claims</td>
<td>588,189</td>
<td>554,163</td>
<td>34,026</td>
</tr>
<tr>
<td>Injury claims</td>
<td>272,289</td>
<td>281,791</td>
<td>(9,502)</td>
</tr>
<tr>
<td>Total claims</td>
<td>860,478</td>
<td>835,954</td>
<td>24,524</td>
</tr>
<tr>
<td>Prior year deficiency (redundancy)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Damage claims</td>
<td>9,890</td>
<td>(10,222)</td>
<td>20,112</td>
</tr>
<tr>
<td>Injury claims</td>
<td>(88,415)</td>
<td>(18,888)</td>
<td>(69,527)</td>
</tr>
<tr>
<td>Change in discounting</td>
<td>5,913</td>
<td>(8,839)</td>
<td>14,752</td>
</tr>
<tr>
<td>Total claims incurred</td>
<td>787,866</td>
<td>798,005</td>
<td>(10,139)</td>
</tr>
</tbody>
</table>

### Current year claims

**Current year damage claims**, excluding storm claims, are $27.1 million, or 5.1%, higher than the prior year due primarily to increases in the number of damage claims, most notably theft and glass claims. Storm claims are $6.9 million or 26.0% higher than the prior year due to an increase in the number of storm claims. The largest storm in the current year was a hail storm in the Saskatoon area, which has an estimated cost of $15.9 million. Overall damage claim frequency increased to 129.1 damage claims per 1,000 insured years compared to 120.9 in the prior year.

Current year injury claims are $9.5 million or 3.4% lower than the prior year. While injury frequency remained stable at 5.1 injury claims per 1,000 insured years, severe injury claim costs (care and income replacement benefits) are down, resulting in a lower severity overall.
Development on prior year claims

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a redundancy exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a deficiency exists, resulting in an increase in claim costs for the year.

The prior year redundancy of $78.5 million includes an $88.4 million decrease in the estimate for prior year injury claims, largely due to improving loss experience and lower indexing of long-term benefits than originally anticipated. This is partly offset by a $9.9 million deficiency in prior year damage claims due to worse than expected loss emergence on prior year claims, most notably for the 2016-17 loss year.

Impact of discounting

Discounting the provision for unpaid claims resulted in a $5.9 million increase to claims incurred. Changes in the provision for unpaid claims and the projected timing of corresponding future payments resulted in an increase to claims incurred through discounting of $7.2 million. The change in the discount rate, which is comprised of increases in bond yields offset by a decrease to long-term equity returns, resulted in a decrease to claims incurred of $1.3 million.

Expenses excluding claims incurred

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other expenses</td>
<td>174,341</td>
<td>178,037</td>
<td>(3,696)</td>
</tr>
</tbody>
</table>

For the 12-month period, other expenses, excluding claims incurred, decreased $3.7 million compared to the same period in 2017. The decrease was primarily due to increases in administrative service recovery fees and a general reduction in overall spending.

Investment earnings and other income

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment earnings</td>
<td>162,762</td>
<td>173,811</td>
<td>(11,049)</td>
</tr>
<tr>
<td>Other income</td>
<td>79,188</td>
<td>68,428</td>
<td>10,760</td>
</tr>
</tbody>
</table>
Investment earnings

In 2018, investment earnings were $162.8 million, a decrease over the $173.8 million earned in 2017. Investment earnings are recorded using market-based accounting principles, the components of which are disclosed in note 12 to the financial statements, and include interest, dividends, investment fund and limited partnership distributions, and both realized and unrealized gains and losses on investments. For purposes of portfolio management, market-based returns are calculated based on the Auto Fund’s investment earnings. In 2018, the total portfolio’s market-based return was 7.2%, compared to an 8.3% return in 2017, led by strong equity returns and positive fixed income results.

The Auto Fund’s investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. More information regarding the Auto Fund’s Matching and Return Seeking Portfolios is provided within the Statement of Financial Position, under the Investments section.

The Matching Portfolio exceeded its benchmark for the year and remained well-matched to the associated claim liabilities. The Return Seeking Portfolio returns were strong as the Auto Fund’s equity investment managers generally outperformed their respective benchmarks resulting in returns above their policy objectives. The following table illustrates the investment portfolio’s actual performance by asset class for 2018 compared to the index and 2017 actual returns.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark Index</th>
<th>Annual Returns to March 31 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Actual 2018</td>
</tr>
<tr>
<td>Matching Bonds</td>
<td>Custom Bond Index</td>
<td>2.2</td>
</tr>
<tr>
<td>Mortgages</td>
<td>FTSE TMX Short &amp; Mid-term Bonds</td>
<td>3.9</td>
</tr>
<tr>
<td>Canadian Equities</td>
<td>S&amp;P/TSX Composite</td>
<td>3.8</td>
</tr>
<tr>
<td>Global Equities</td>
<td>MSCI ACWI ($C)</td>
<td>15.4</td>
</tr>
<tr>
<td>Global Small Cap Equities</td>
<td>MSCI ACWSCI ($C)</td>
<td>17.1</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Investment Property Databank</td>
<td>12.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Canadian CPI + 5%</td>
<td>8.2</td>
</tr>
</tbody>
</table>
While the Auto Fund monitors investment returns compared to benchmark returns on a monthly basis, the performance measures are expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

**Other income**

Other income consists of fees charged to customers for using the AutoPay and short-term payment option programs, salvage operations income and SDR program fees. Drivers in the SDR penalty zone (safety rating less than zero) are assessed a financial penalty each time an applicable incident occurs.

Other income increased $10.8 million over the prior year. The SDR program fees increased $7.9 million or 48.8%, primarily the result of changes implemented in October 2016 that doubled the maximum penalty amount per incident from $500 to $1,000. Net earnings from salvage sales are $1.9 million higher than 2017, due primarily to an increase in whole vehicle sales that was largely driven by a 9.2% increase in the average vehicle selling price. Fees for using payment option plans increased $965,000 to $32.6 million. The overall proportion of vehicle premiums financed through payment option programs grew to 65.8% (2017 – 64.6%).

**Statement of Cash Flows**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating activities</td>
<td>143,740</td>
<td>138,694</td>
<td>5,046</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(158,368)</td>
<td>(139,823)</td>
<td>(18,545)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>(14,628)</td>
<td>(1,129)</td>
<td>(13,499)</td>
</tr>
</tbody>
</table>

Cash flows generated from operating activities of $143.7 million for the 12 months ended March 31, 2018 were used to purchase $154.2 million of additional long-term investments and $4.1 million of property and equipment, which resulted in an overall decrease in cash and cash equivalents of $14.6 million. The $5.0 million improvement in operating cash flow is a result of improved overall underwriting results compared to 2017.

**Statement of Financial Position**

<table>
<thead>
<tr>
<th></th>
<th>March 31 2018</th>
<th>March 31 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL ASSETS</td>
<td>$ 2,864,978</td>
<td>$ 2,632,825</td>
<td>$ 232,153</td>
</tr>
</tbody>
</table>

Key asset account changes:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>2,507,850</td>
<td>2,276,791</td>
<td>231,059</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>237,841</td>
<td>218,661</td>
<td>19,180</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>23,389</td>
<td>38,017</td>
<td>(14,628)</td>
</tr>
</tbody>
</table>
Investments
The carrying value of investments increased by $231.1 million during the year, due to the investment of operating cash flows and exceptionally strong equity returns.

The investment portfolio is held to pay future claims, while income earned on these investments helps reduce insurance rates for vehicle owners. The portfolio’s asset mix strategy is set by the Board of Directors annually through a detailed assessment of the Auto Fund’s risk tolerance. In summary, the Auto Fund’s positive cash flows and the presence of the Rate Stabilization Reserve, which serves to buffer the fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long-term investment horizon. The asset mix strategy takes into consideration the current and expected conditions of capital markets and the historic return and risk profile of various asset classes. In order to achieve long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long term. Over shorter periods, however, performance of these asset classes can be volatile. The Auto Fund investment portfolio continues to hold a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in the 12-month period ended March 31, 2018.

The Auto Fund’s investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure. Equities include investments in Canadian common shares as well as investments in two global equity investment funds and a global small capitalization equity investment fund. The Auto Fund’s investments in real estate and mortgages are through investment funds as well. The two infrastructure investments are held in limited liability partnerships, an investment vehicle with similarities to an investment fund. More detail on the investment portfolio categories is provided in note 6 to the financial statements.

The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio holds the fixed income investments including mortgage securities, while the Return Seeking Portfolio is comprised of equities, real estate and infrastructure. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years with remaining long-tail liabilities covered by the Return Seeking Portfolio.

The objective of the Matching Portfolio is to group claim payments into five buckets based on the expected payment date, and then match these outflows with anticipated cash inflows from coupon and principal payments from fixed income assets in each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund’s actuarial valuations, asset cash flows are realigned to revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching and Return Seeking Portfolios may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio. The Matching Portfolio is rebalanced quarterly and continues to meet the objectives established by the investment policy.
Expected liability cash flows and matching portfolio asset cash flows as of March 31, 2018 are as follows:

<table>
<thead>
<tr>
<th>Matching Portfolio Asset-Liability Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 years</td>
</tr>
<tr>
<td>450</td>
</tr>
<tr>
<td>200</td>
</tr>
</tbody>
</table>

The annual investment policy review resulted in one change to the policy asset mix guidelines and benchmark portfolio weights in the Return Seeking Portfolio, resulting in a reduction in real estate in favour of additional infrastructure investments. The Auto Fund continues to monitor its fixed income investments to ensure they are well matched to their associated liabilities.

The asset mix within the Return Seeking Portfolio remains in transition to the long-term target weights due to lags in funding commitments to infrastructure and real estate. As these mandates are funded over the next three years, the portfolio is expected to more closely align with the long-term benchmark weights.

The portfolio asset mix and benchmark weights at March 31, 2018 are as follows:
Accounts receivable
Accounts receivable increased $19.2 million, or 8.8% over the 12-month period. The AutoPay financed premiums receivable increased $16.5 million, an 8.5% increase to $209.9 million, as customers continue to choose to pay monthly for their registrations. Also contributing to this increase is the fact that provincial sales tax (PST) was added to insurance premiums in August 2017. Customer receivables increased $8.6 million, or 34.6% to $33.5 million, largely the result of continued growth in unpaid SDR penalty fees.

Cash and cash equivalents
Cash and cash equivalents at March 31, 2018 were $23.4 million (2017 – $38.0 million), a decrease of $14.6 million. The sources of the change in cash and cash equivalents for the year are discussed in the previous section, Statement of Cash Flows.

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>March 31 2018</th>
<th>March 31 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$2,088,983</td>
<td>$2,066,925</td>
<td>$22,058</td>
</tr>
<tr>
<td>Key liability account changes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>52,589</td>
<td>39,785</td>
<td>12,804</td>
</tr>
<tr>
<td>Provision for unpaid claims</td>
<td>1,630,742</td>
<td>1,619,746</td>
<td>10,996</td>
</tr>
</tbody>
</table>

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities increased $12.8 million, due primarily to an increase in PST payable, which was added to insurance premiums in August 2017.

Provision for unpaid claims
The provision for unpaid claims reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section, Critical Accounting Estimates.

The provision for unpaid claims grew by $11.0 million during the year to $1.6 billion (March 31, 2017 – $1.6 billion). This represents an increase of 0.7% from the last period. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred.

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>March 31 2018</th>
<th>March 31 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY</td>
<td>$775,995</td>
<td>$565,900</td>
<td>$210,095</td>
</tr>
<tr>
<td>Key equity account changes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Reserve</td>
<td>775,995</td>
<td>565,900</td>
<td>210,095</td>
</tr>
</tbody>
</table>

Rate Stabilization Reserve (RSR)
The increase to the RSR was a result of the $210.1 million surplus from operations.
Quarterly Financial Highlights

The following table highlights quarter-over-quarter results for the Auto Fund:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
<td>Q4</td>
</tr>
<tr>
<td>Net premiums written</td>
<td>192,781</td>
<td>207,510</td>
<td>241,698</td>
<td>285,654</td>
<td>927,643</td>
<td>204,473</td>
<td>205,950</td>
<td>238,133</td>
<td>284,974</td>
</tr>
<tr>
<td>Net premiums earned</td>
<td>220,533</td>
<td>231,938</td>
<td>244,802</td>
<td>233,079</td>
<td>930,352</td>
<td>219,111</td>
<td>230,550</td>
<td>240,803</td>
<td>232,062</td>
</tr>
<tr>
<td>Net claims incurred</td>
<td>179,564</td>
<td>253,107</td>
<td>170,532</td>
<td>184,663</td>
<td>787,866</td>
<td>160,874</td>
<td>198,257</td>
<td>230,965</td>
<td>207,909</td>
</tr>
<tr>
<td>Increase (decrease) to RSR</td>
<td>41,226</td>
<td>44,393</td>
<td>62,342</td>
<td>62,134</td>
<td>210,095</td>
<td>100,946</td>
<td>(5,099)</td>
<td>48,968</td>
<td>43,908</td>
</tr>
<tr>
<td>Cash flow from (used in) operations</td>
<td>(29,605)</td>
<td>54,345</td>
<td>53,336</td>
<td>65,664</td>
<td>143,740</td>
<td>(28,383)</td>
<td>31,112</td>
<td>59,527</td>
<td>76,438</td>
</tr>
<tr>
<td>Investments</td>
<td>2,507,850</td>
<td>2,520,903</td>
<td>2,422,505</td>
<td>2,336,256</td>
<td>2,276,791</td>
<td>2,273,216</td>
<td>2,271,370</td>
<td>2,159,290</td>
<td></td>
</tr>
<tr>
<td>Provision for unpaid claims</td>
<td>1,630,742</td>
<td>1,648,118</td>
<td>1,613,867</td>
<td>1,630,103</td>
<td>1,619,746</td>
<td>1,659,314</td>
<td>1,666,077</td>
<td>1,594,969</td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Reserve</td>
<td>775,995</td>
<td>734,769</td>
<td>690,376</td>
<td>628,034</td>
<td>565,900</td>
<td>464,954</td>
<td>470,053</td>
<td>421,085</td>
<td></td>
</tr>
</tbody>
</table>

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- With the exception of the period January to March, the Auto Fund generates positive cash flows from operations. Cash is typically low in this period as the Auto Fund pays annual premium taxes to the province in March and there are higher claim outflows from the winter driving season. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

Related Party Transactions

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Details of significant related party transactions are disclosed in the financial statements that follow.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $143.0 million (2017 – $147.6 million).

Certain Board members are partners in organizations that provided $277,000 (2017 – $169,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. The above noted transactions are routine operating transactions in the normal course of business.
Off Balance Sheet Arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position—commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, the financial position or cash flows of the Auto Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for claimants. This is a common practice in the property and casualty insurance industry. The net present value of the scheduled payments at March 31, 2018 was $22.7 million (March 31, 2017 – $22.8 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide rehabilitative services for those injured in automobile collisions. Funding commitments range between $19.9 million and $30.0 million per year over the next five years.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit, Finance and Conduct Review Committee of the Board of Directors, and the Audit, Finance and Conduct Review Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and unpaid claims recoverable from reinsurers.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim, and then revised regularly as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.
This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. The provision for unpaid claims has been calculated including the impact of discounting. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

**Unpaid claims recoverable from reinsurers**

Unpaid claims recoverable from reinsurers include amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An allowance for doubtful accounts is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. At March 31, 2018, and March 31, 2017, there is no allowance for doubtful accounts recorded related to unpaid claims recoverable from reinsurers.

**Risk Management**

Risk management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by the Auto Fund by identifying specific risk events and their potential impact on operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after application of potential mitigations.

The above process results in a risk profile for the Auto Fund, which is reviewed by the Risk Committee of the Board of Directors annually. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to the Auto Fund's risk management process.

The following risks represent the most serious threats to the Auto Fund. Failure to manage any of these risks could lead to significant operational, financial or reputational damage. The nature of these risks, along with efforts to mitigate them, is summarized as follows:

**Market Value Changes**

**Risk:** Market value changes within the Auto Fund investment portfolios impact the ability of the Auto Fund to deliver stable financial performance.

**Mitigation:** The Auto Fund investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio is structured to match the fixed income investment assets to the associated liabilities, thus reducing the impact of changes in interest rates. The Return Seeking Portfolio invests in equity, real estate and infrastructure assets to increase the long-term return. As a whole, the Auto Fund maintains a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.
The structure and management of the Auto Fund's investment portfolios are governed by the Statement of Investment Policies and Goals. The policy is reviewed by the Board of Directors annually and captures the asset mix strategy, guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations. This information is regularly reported to the Investment Committee of the Board and includes a compliance review and performance review by independent external consultants.

**Responsiveness to Business Needs**

**Risk:** SGI is unable to meet the speed-to-market targets for products and services due to its complex internal system architecture. Increased business expectations and limited information technology (IT) resources have contributed to a slower responsiveness to business needs.

**Mitigation:** To better meet the business needs of the Auto Fund, the Information Services division has restructured to provide dedicated teams to work with business units to understand the problem the business areas are trying to solve through technology. An assessment of all technologies has been completed to inform application deficiencies and to develop an IT roadmap for modernization. An IT strategy is being developed to outline the steps required to move to an open architecture, which will allow SGI to increase its flexibility in partnering with experts in specific niche applications versus building its own and in improving its speed-to-market capabilities.

**Catastrophic Claim Loss**

**Risk:** An event loss in excess of reinsurance limits, an aggregation of large losses within the corporate net retention or the failure of a reinsurer could result in major financial losses for the Auto Fund.

**Mitigation:** SGI determines Auto Fund reinsurance limits using independent catastrophe modeling, including scenario tests that overlay hypothetical events on high-exposure concentrations. To mitigate the risk of reinsurer failure, SGI and its reinsurance broker monitor reinsurer solvency through independent assessment as well as through ratings provided by AM Best and Standard & Poor's.

**Acquisition and Development of Expertise**

**Risk:** SGI faces challenges in building a workforce that has the expertise to build and maintain a digital, data-savvy, customer-centric culture to meet customer demands and compete with other insurers. Challenges include recruitment of qualified people with the requisite knowledge, skills and experience, creation of training and development programs to build employee business acumen, and the need to support an analytical and customer-centric culture.

**Mitigation:** SGI has implemented or is working on a number of programs in this area, including competency-based recruitment, training and mentoring programs, knowledge management solutions, succession planning, and monitoring workplace engagement and enablement through employee surveys. A corporate learning strategy is in place to grow talent, and SGI has devoted additional resources and technology to training and development. SGI's succession planning process focuses on: ensuring current senior management positions have succession plans; identifying high performing staff who have potential for more senior roles plus ensuring high-potential staff and the leadership team have ongoing development and support. A corporate leadership strategy has been developed. Initially applicable to senior leadership, the program is now applicable to all management personnel in the Corporation. The objective of this leadership development program is to develop individual abilities in areas such as strategic leadership, business acumen and leading a culture of change.
Strategy

Risk: The Auto Fund does not have the right strategic plan to be successful.

Mitigation: SGI's purpose and ideals are defined in the corporate mission, vision and values statements. These statements were revised in 2016 with input from employees and other stakeholders, and provided the base for the development of the 2016-2020 strategic plan, which provides direction on how the Corporation will achieve its vision. SGI's strategic plan is formally reviewed and updated annually, and revisited in detail every five years.

System Security

Risk: The potential harm to the Auto Fund from threats (e.g., system breach, unauthorized access) that can have adverse effects on organizational operations, and result in significant financial and reputational damage.

Mitigation: SGI maintains a security policy that includes corporate standards for user access (including remote and external vendor access), passwords, physical security, mobile devices, wireless networks and acceptable use of SGI systems. The Corporation has implemented many mechanisms (such as firewalls, intrusion prevention, antiviruses, etc.) to protect its data environment and continually monitors systems for potential threat activity. Should an event occur, SGI has developed incident response procedures to decrease the severity of the breach. Additionally, a Chief Security Officer role has been established for dedicated focus on the increased complexity that cyber security brings to SGI.

Privacy Breach

Risk: Personal information held by the Auto Fund for a large number of customers is lost, accessed, used or disclosed contrary to legislated privacy requirements, resulting in adverse legal, regulatory and financial consequences, as well as a loss in confidence by customers and other stakeholders.

Mitigation: Specific guidelines on handling personal information have been implemented and are updated regularly to be consistent with industry recommended best practices. SGI uses the American Institute of Certified Public Accountants/Chartered Professional Accountants of Canada Privacy Maturity Model to assess and measure its privacy program. The Auto Fund conducts targeted privacy audits in areas that handle customer information, and uses a Privacy Impact Assessment process for reviewing business changes to ensure privacy concerns are addressed at the design level. To promote awareness of privacy obligations, new staff must complete online privacy training, and all staff are required to complete an annual sign-off of the Code of Ethics and Conduct, and the Confidentiality and Non-Disclosure Agreement.

Employee Change Agility

Risk: SGI's business strategy involves substantive transformation with a critical mass of the organization's employees grappling with significant change. Employee engagement, change capacity and productivity will, to a large extent, determine SGI's ability to successfully meet its objectives.

Mitigation: SGI has a large number of initiatives dedicated to assisting employees in understanding and adapting to change, plus a focus on employee engagement and empowerment. An enhanced change management process, a high performance competency model, knowledge transfer programs, as well as support for performance development and employee training applicable to all employees, help mitigate this risk.
Outlook for 2018-19

The Saskatchewan Auto Fund continues to be efficient and well-run – maintaining administrative expense ratios below other Canadian public insurers and providing among the lowest auto insurance rates in Canada.

The Auto Fund aims to help reduce injuries and fatalities occurring on Saskatchewan roads, maintain Saskatchewan’s position as having among the lowest personal auto insurance rates in Canada and provide quality service to customers. To achieve this, the Auto Fund will focus on three key areas in 2018-19:

• traffic safety;
• customer centricity; and,
• operational excellence.

Traffic safety - The Auto Fund plays a key role in improving road safety in Saskatchewan, implementing and funding traffic safety initiatives that aim to change driving behaviours through enhanced education and awareness. Emphasis is placed on behaviours that contribute most to fatalities and injuries – focusing on impaired driving while maintaining momentum on distracted driving, speed and occupant restraints. With the impending legalization of cannabis, and its potential impact on traffic safety, drug impairment research will continue and awareness campaigns related to drug-impaired driving are already underway. The Auto Fund’s ultimate goal is to help Saskatchewan achieve the safest roads in Canada. In 2018-19, the focus will be on achieving a 28% reduction in injuries and fatalities on Saskatchewan roads compared to the 2010-2014 July to June averages.

Customer centricity - Consistent with previous years, customer centricity remains a strategic area of focus for the Auto Fund. It aims to develop a deeper understanding of how to increase value for customers and strengthen the ability to deliver that value. The Auto Fund is committed to building a foundation of consistent and reliable customer experiences, and to continuously improve these experiences. A review of claim processes is ongoing, with a focus on enhancing the overall experience provided to customers. Insight into what customers think of their interactions and relationship with the company is assessed using the customer experience index. In 2018-19, the target customer experience index score is 77, continuing to move towards the long-term goal of achieving an index score of 80.

Operational excellence - The Auto Fund must ensure that its foundational business structures and processes support achieving significant improvements in traffic safety, as well as providing a quality customer experience. It is focused on continuous employee development through numerous programs, including leadership development and knowledge transfer plans, and supports employees to grow their change agility. This employee development, combined with technology and processes that optimize productivity and efficiencies, will ensure strategic priorities are delivered and the Auto Fund’s administrative costs support maintaining low rates.
Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management’s broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit, Finance and Conduct Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, PricewaterhouseCoopers have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund’s financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor’s Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell  
President and Chief Executive Officer  
Saskatchewan Government Insurance  
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan  
Chief Financial Officer  
Saskatchewan Government Insurance  
as Administrator of the Saskatchewan Auto Fund

May 31, 2018
Annual Statement of Management Responsibility

I, Andrew Cartmell, President and Chief Executive Officer, and I, Jeff Stepan, Chief Financial Officer, certify the following:

a. That we have reviewed the financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of March 31, 2018.

b. That based on our knowledge, having exercised reasonable diligence, the financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That Saskatchewan Auto Fund (the Auto Fund) is responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Auto Fund has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That the Auto Fund conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2018, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

May 31, 2018
Actuary’s Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of the Saskatchewan Auto Fund for its statement of financial position at March 31, 2018, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

May 31, 2018
Independent Auditor’s Report

May 31, 2018

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Auto Fund, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and change in rate stabilization reserve and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Auto Fund as at March 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
Chartered Professional Accountants
# Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>March 31 2018</th>
<th>March 31 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (note 4)</td>
<td>$23,389</td>
<td>$38,017</td>
</tr>
<tr>
<td>Accounts receivable (note 5)</td>
<td>237,841</td>
<td>218,661</td>
</tr>
<tr>
<td>Investments under securities lending program (note 6)</td>
<td>483,820</td>
<td>291,779</td>
</tr>
<tr>
<td>Investments (note 6)</td>
<td>2,024,030</td>
<td>1,985,012</td>
</tr>
<tr>
<td>Unpaid claims recoverable from reinsurers (note 9)</td>
<td>11,625</td>
<td>13,784</td>
</tr>
<tr>
<td>Reinsurers’ share of unearned premiums (note 11)</td>
<td>6,454</td>
<td>5,437</td>
</tr>
<tr>
<td>Deferred policy acquisition costs (note 7)</td>
<td>29,993</td>
<td>30,465</td>
</tr>
<tr>
<td>Property and equipment (note 10)</td>
<td>41,281</td>
<td>42,990</td>
</tr>
<tr>
<td>Other assets (note 8)</td>
<td>6,545</td>
<td>6,680</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$2,864,978</strong></td>
<td><strong>$2,632,825</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$52,589</td>
<td>$39,785</td>
</tr>
<tr>
<td>Premium taxes payable</td>
<td>10,059</td>
<td>10,137</td>
</tr>
<tr>
<td>Amounts due to reinsurers</td>
<td>8,709</td>
<td>8,681</td>
</tr>
<tr>
<td>Unearned premiums (note 11)</td>
<td>386,884</td>
<td>388,576</td>
</tr>
<tr>
<td>Provision for unpaid claims (note 9)</td>
<td>1,630,742</td>
<td>1,619,746</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>2,088,983</strong></td>
<td><strong>2,066,925</strong></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Reserve</td>
<td>775,995</td>
<td>565,900</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>$2,864,978</strong></td>
<td><strong>$2,632,825</strong></td>
</tr>
</tbody>
</table>

Contingencies (note 18)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on May 31, 2018

Arlene Wiks  
Director

Mark Borgares  
Director
Statement of Operations and Change in Rate Stabilization Reserve

For the years ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums written</td>
<td>$937,308</td>
<td>$933,530</td>
</tr>
<tr>
<td>Premiums ceded to reinsurers</td>
<td>(9,665)</td>
<td>(8,576)</td>
</tr>
<tr>
<td>Net premiums written</td>
<td>927,643</td>
<td>924,954</td>
</tr>
<tr>
<td>Change in net unearned premiums (note 11)</td>
<td>2,709</td>
<td>(2,428)</td>
</tr>
<tr>
<td><strong>Net premiums earned</strong></td>
<td><strong>930,352</strong></td>
<td><strong>922,526</strong></td>
</tr>
<tr>
<td>Gross claims incurred</td>
<td>793,939</td>
<td>808,771</td>
</tr>
<tr>
<td>Ceded claims incurred</td>
<td>(6,073)</td>
<td>(10,766)</td>
</tr>
<tr>
<td>Net claims incurred (note 9)</td>
<td>787,866</td>
<td>798,005</td>
</tr>
<tr>
<td>Issuer fees</td>
<td>46,253</td>
<td>46,244</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>50,502</td>
<td>54,201</td>
</tr>
<tr>
<td>Premium taxes</td>
<td>46,950</td>
<td>46,462</td>
</tr>
<tr>
<td>Traffic safety programs</td>
<td>30,636</td>
<td>31,130</td>
</tr>
<tr>
<td><strong>Total claims and expenses</strong></td>
<td><strong>962,207</strong></td>
<td><strong>976,042</strong></td>
</tr>
<tr>
<td>Underwriting loss</td>
<td>(31,855)</td>
<td>(53,516)</td>
</tr>
<tr>
<td>Net investment earnings (note 12)</td>
<td>162,762</td>
<td>173,811</td>
</tr>
<tr>
<td>Other income (note 13)</td>
<td>79,188</td>
<td>68,428</td>
</tr>
<tr>
<td><strong>Increase to Rate Stabilization Reserve and Comprehensive Income</strong></td>
<td>$210,095</td>
<td>$188,723</td>
</tr>
<tr>
<td>Rate Stabilization Reserve, beginning of period</td>
<td>565,900</td>
<td>377,177</td>
</tr>
<tr>
<td><strong>Rate Stabilization Reserve, end of period</strong></td>
<td><strong>$775,995</strong></td>
<td>$565,900</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Statement of Cash Flows

For the years ended March 31

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash provided by (used for):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase to Rate Stabilization Reserve and Comprehensive Income</td>
<td>$210,095</td>
<td>$188,723</td>
</tr>
<tr>
<td>Non-cash items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond amortization</td>
<td>2,609</td>
<td>3,599</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,738</td>
<td>5,579</td>
</tr>
<tr>
<td>Net realized gains on sale of investments</td>
<td>(6,582)</td>
<td>(15,835)</td>
</tr>
<tr>
<td>Net unrealized gains on change in market value of investments</td>
<td>(72,864)</td>
<td>(105,806)</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>117</td>
<td>133</td>
</tr>
<tr>
<td>Change in non-cash operating items (note 16)</td>
<td>4,627</td>
<td>62,301</td>
</tr>
<tr>
<td><strong>Total operating activities</strong></td>
<td>143,740</td>
<td>138,694</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(904,683)</td>
<td>(919,332)</td>
</tr>
<tr>
<td>Proceeds on sale of investments</td>
<td>750,461</td>
<td>787,972</td>
</tr>
<tr>
<td>Purchases of property and equipment, net of proceeds from disposals</td>
<td>(4,146)</td>
<td>(8,463)</td>
</tr>
<tr>
<td><strong>Total investing activities</strong></td>
<td>(158,368)</td>
<td>(139,823)</td>
</tr>
<tr>
<td><strong>Decrease in cash and cash equivalents</strong></td>
<td>(14,628)</td>
<td>(1,129)</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of period</td>
<td>38,017</td>
<td>39,146</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of period</strong></td>
<td>$23,389</td>
<td>$38,017</td>
</tr>
<tr>
<td><strong>Supplemental cash flow information:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>$27,736</td>
<td>$29,189</td>
</tr>
<tr>
<td>Dividends received</td>
<td>$6,471</td>
<td>$5,978</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Notes to the Financial Statements

March 31, 2018

1. Status of the Auto Fund

The Saskatchewan Auto Fund was established effective January 1, 1984, by an amendment to The Automobile Accident Insurance Act. The address of the Auto Fund's registered office is 2260 - 11th Avenue, Regina, SK, Canada. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault Coverage or Tort Coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events.

Substantially all of the Auto Fund's premium revenue is subject to review by the Saskatchewan Rate Review Panel (SRRP). The Auto Fund is required to submit vehicle insurance rate changes to the SRRP, whose mandate is to evaluate the rate change and provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the government of the Province of Saskatchewan.

Being a fund of the Province of Saskatchewan, the Auto Fund is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. Basis of Preparation

Statement of compliance

The financial statements for the years ended March 31, 2018, and March 31, 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).
Statement of Financial Position classification
The Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) presented in the notes.

Functional and presentation currency
These financial statements are presented in Canadian dollars, which is the Auto Fund's functional and presentation currency.

Use of estimates and judgment
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9), the valuation of accounts receivable (note 5) and the valuation of investments classified as Level 3 (note 6).

3. Significant Accounting Policies

Financial assets and liabilities
The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized as an increase or decrease to the Rate Stabilization Reserve. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to the Rate Stabilization Reserve. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Auto Fund has no financial assets or liabilities designated as available for sale or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Auto Fund. There are no financial assets or financial liabilities reported as offset in these financial statements.
Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset’s or liability’s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Auto Fund defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian common shares and equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Auto Fund does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value of short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Auto Fund's investment in the mortgage and real estate investment funds, and infrastructure limited partnerships. The fair value of these investments is based on the Auto Fund's share of the net asset value of the respective fund or partnership, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing, over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.

- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.
• The fair value of the infrastructure limited partnerships is determined by the investment manager. A number of valuation methodologies are considered in arriving at fair value, including internal or external valuation models, which may include discounted cash flow analysis. The most appropriate methodology to determine fair value is chosen on an investment-by-investment basis. Any control, size, liquidity or other discounts or premiums on the investment are considered by the investment manager in their determination of fair value. During the initial period after an investment has been made, cost may represent the most reasonable estimate of fair value.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment’s interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and premium taxes payable approximate their carrying values due to their short-term nature.

Investments
The Auto Fund records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized when the rights to receive cash flows from them have expired, or when the Auto Fund has transferred substantially all risks and rewards of ownership.

Investments under securities lending program
Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Auto Fund to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Auto Fund in the course of such transactions.

Investment earnings
The Auto Fund recognizes interest revenue as earned, dividends when declared, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.
Foreign currency translation
Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written
The Auto Fund's vehicle registrations have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of vehicle registrations generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs
Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded
The Auto Fund uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Reinsurance ceded does not relieve the Auto Fund of its primary obligation to policyholders.
Cash and cash equivalents
Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Property and equipment
All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Auto Fund has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Auto Fund, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and residual values of the assets are reviewed at each reporting period.

Depreciation is recorded on a straight-line basis, commencing in the period in which the asset is available to be placed in service, over their estimated useful lives as follows:

- **Buildings**: 20-40 years
- **Building components**: 15-30 years
- **Leasehold improvements**: 5 years
- **Computer hardware**: 3-5 years

Building components consist of heating and cooling systems, elevators, roofs and parking lots. Land is not subject to amortization and is carried at cost.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets
Leases where the Auto Fund does not assume substantially all of the risks and rewards of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities
Provisions are recognized when the Auto Fund has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements
In the normal course of claim adjudication, the Auto Fund settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Auto Fund does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of purchase and the related claim liabilities are de-recognized. However, the Auto Fund remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.
Future accounting policy changes
The following future changes to accounting standards will have applicability to the Auto Fund:

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, Financial Instruments: Recognition and Measurement to IFRS 9. The amendments are effective on adoption of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Auto Fund will qualify for the temporary exemption, thus IFRS 7 is effective for annual periods beginning on or after January 1, 2021. The Auto Fund is evaluating the impact this amendment will have on the financial statements.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued a final version of IFRS 9 as part of its plan to replace IAS 39. IFRS 9 is a three-part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and Measurement, Phase 2 Impairment and Phase 3 Hedge Accounting.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

Phase two was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase three was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Auto Fund will qualify for the temporary exemption, thus IFRS 9 is effective for annual periods beginning on or after January 1, 2021. The Auto Fund is evaluating the impact this standard will have on the financial statements.
IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18, *Revenue*, IAS 11 *Construction Contracts* and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception that excludes insurance contracts within the scope of IFRS 4, *Insurance Contracts*; therefore, this standard will have a limited impact on the Auto Fund.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17, *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Auto Fund is evaluating the impact this standard will have on the financial statements.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities’ financial statements.

IFRS 17 applies to annual periods beginning on or after January 1, 2021, with earlier application permitted if IFRS 15 and IFRS 9 are also adopted. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Auto Fund is not federally regulated, it generally follows OSFI’s guidance in such matters. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Auto Fund is evaluating the impact this standard will have on the financial statements.

4. Cash and Cash Equivalents

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market investments</td>
<td>$11,600</td>
<td>$29,783</td>
</tr>
<tr>
<td>Cash, net of outstanding cheques</td>
<td>11,789</td>
<td>8,234</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>$23,389</td>
<td>$38,017</td>
</tr>
</tbody>
</table>

The average effective interest rate on money market investments is 1.2% (2017 – 0.5%).
5. Accounts Receivable

Accounts receivable is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due from insureds</td>
<td>$243,428</td>
<td>$218,298</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>7,592</td>
<td>7,686</td>
</tr>
<tr>
<td>Licence issuers</td>
<td>7,027</td>
<td>5,459</td>
</tr>
<tr>
<td>Salvage operation customers</td>
<td>1,762</td>
<td>2,055</td>
</tr>
<tr>
<td>Amounts due from municipalities and Justice Department</td>
<td>832</td>
<td>760</td>
</tr>
<tr>
<td>Amounts due from reinsurers</td>
<td>719</td>
<td>571</td>
</tr>
<tr>
<td>Other</td>
<td>334</td>
<td>473</td>
</tr>
<tr>
<td>Subtotal</td>
<td>261,694</td>
<td>235,302</td>
</tr>
<tr>
<td>Less: Allowance for doubtful accounts (note 14)</td>
<td>(23,853)</td>
<td>(16,641)</td>
</tr>
<tr>
<td>Total accounts receivable</td>
<td>$237,841</td>
<td>$218,661</td>
</tr>
</tbody>
</table>

Included in due from insureds is $209,922,000 (2017 – $193,407,000) of financed premiums receivable, which represents the portion of policyholders’ monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period (note 13).

All accounts receivable are current.
6. Investments

The carrying and fair values of the Auto Fund's investments are as follows:

<table>
<thead>
<tr>
<th>Investments</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term investments</td>
<td>$ 9,898</td>
<td>$ 33,133</td>
</tr>
<tr>
<td>Bonds and debentures</td>
<td>552,522</td>
<td>732,644</td>
</tr>
<tr>
<td>Canadian common shares</td>
<td>186,529</td>
<td>167,101</td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>60,056</td>
<td>52,526</td>
</tr>
<tr>
<td>Investment funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td>600,427</td>
<td>479,675</td>
</tr>
<tr>
<td>Global small cap equity</td>
<td>211,450</td>
<td>168,270</td>
</tr>
<tr>
<td>Mortgage</td>
<td>193,509</td>
<td>186,289</td>
</tr>
<tr>
<td>Real estate</td>
<td>209,639</td>
<td>165,374</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>$ 2,024,030</td>
<td>1,985,012</td>
</tr>
</tbody>
</table>

Details of significant terms and conditions, exposures to interest rate and credit risks of investments and counterparty risk are as follows:

**Short-term investments**

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.3% (2017 – 0.8%) and an average remaining term to maturity of 125 days (2017 – 151 days). The Auto Fund’s investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

**Bonds and debentures**

The Auto Fund’s investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service. In addition, it limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.
The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

<table>
<thead>
<tr>
<th>Term to maturity (years)</th>
<th>Carrying Value</th>
<th>Average Effective Rates (%)</th>
<th>Carrying Value</th>
<th>Average Effective Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government of Canada:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>After one through five</td>
<td>$112,859</td>
<td>2.1</td>
<td>$70,062</td>
<td>1.0</td>
</tr>
<tr>
<td>After five</td>
<td>$87,986</td>
<td>2.4</td>
<td>$141,153</td>
<td>1.9</td>
</tr>
<tr>
<td>Canadian provincial and municipal:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One or less</td>
<td>–</td>
<td>–</td>
<td>$15,332</td>
<td>1.1</td>
</tr>
<tr>
<td>After five</td>
<td>$427,300</td>
<td>3.0</td>
<td>$405,032</td>
<td>2.9</td>
</tr>
<tr>
<td>Canadian corporate:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One or less</td>
<td>$145,294</td>
<td>1.9</td>
<td>$108,972</td>
<td>1.1</td>
</tr>
<tr>
<td>After one through five</td>
<td>$81,136</td>
<td>2.2</td>
<td>$128,785</td>
<td>1.6</td>
</tr>
<tr>
<td>After five</td>
<td>$83,775</td>
<td>2.9</td>
<td>$83,937</td>
<td>2.9</td>
</tr>
<tr>
<td>Total bonds and debentures</td>
<td>$938,350</td>
<td></td>
<td>$953,273</td>
<td></td>
</tr>
</tbody>
</table>

**Canadian common shares**
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.3% (2017 – 2.3%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

**Investment funds and limited partnerships**
The Auto Fund owns units in equity funds, a mortgage investment fund, a real estate investment fund, and two infrastructure limited partnerships. These investment funds have no fixed distribution rate. Returns are based on the success of the investment managers.

**Securities lending program**
Through its custodian, the Auto Fund participates in a securities lending program for the purpose of generating fee income. When securities are loaned, the Auto Fund is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities or, if the collateral is liquidated, it may be for less than the value of the loan. The Auto Fund mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 105% of the market value of the loaned securities is retained by the Auto Fund until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At March 31, 2018, the Auto Fund held collateral of $510,704,000 (2017 – $306,369,000) for the loaned securities.
**Fair value hierarchy**

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

### (thousands of $)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>$</td>
</tr>
<tr>
<td>Bonds and debentures</td>
<td>–</td>
</tr>
<tr>
<td>Canadian common shares</td>
<td>284,521</td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>–</td>
</tr>
<tr>
<td>Investment funds:</td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td>600,427</td>
</tr>
<tr>
<td>Global small cap equity</td>
<td>211,450</td>
</tr>
<tr>
<td>Mortgage</td>
<td>–</td>
</tr>
<tr>
<td>Real estate</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,096,398</td>
</tr>
</tbody>
</table>

### (thousands of $)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>$</td>
</tr>
<tr>
<td>Bonds and debentures</td>
<td>–</td>
</tr>
<tr>
<td>Canadian common shares</td>
<td>238,251</td>
</tr>
<tr>
<td>Infrastructure limited partnership</td>
<td>–</td>
</tr>
<tr>
<td>Investment funds:</td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td>479,675</td>
</tr>
<tr>
<td>Global small cap equity</td>
<td>168,270</td>
</tr>
<tr>
<td>Mortgage</td>
<td>–</td>
</tr>
<tr>
<td>Real estate</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$886,196</td>
</tr>
</tbody>
</table>

The Auto Fund’s policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.
A reconciliation of Level 3 investments is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 3 investments, beginning of the year</strong></td>
<td>$404,189</td>
<td>$286,388</td>
</tr>
<tr>
<td><strong>Add: Additions during the year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>5,896</td>
<td>6,758</td>
</tr>
<tr>
<td>Mortgage investment fund</td>
<td>7,586</td>
<td>78,417</td>
</tr>
<tr>
<td>Real estate investment fund</td>
<td>23,135</td>
<td>20,136</td>
</tr>
<tr>
<td><strong>Less: Disposals during the year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>(390)</td>
<td>(1,260)</td>
</tr>
<tr>
<td>Net unrealized gains</td>
<td>22,788</td>
<td>13,750</td>
</tr>
<tr>
<td><strong>Level 3 investments, end of the year</strong></td>
<td>$463,204</td>
<td>$404,189</td>
</tr>
</tbody>
</table>

Investment in the infrastructure limited partnerships, the mortgage investment fund and the real estate investment fund are valued using the Auto Fund’s share of the net asset value of the respective fund as at March 31, 2018 and March 31, 2017.

During the years ended March 31, 2018, and March 31, 2017, no investments were transferred between levels.

### 7. Deferred Policy Acquisition Costs

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred policy acquisition costs, beginning of the year</strong></td>
<td>$30,465</td>
<td>$30,179</td>
</tr>
<tr>
<td><strong>Acquisition costs deferred during the year</strong></td>
<td>45,897</td>
<td>46,537</td>
</tr>
<tr>
<td><strong>Amortization of deferred acquisition costs</strong></td>
<td>(46,369)</td>
<td>(46,251)</td>
</tr>
<tr>
<td><strong>Deferred policy acquisition costs, end of the year</strong></td>
<td>$29,993</td>
<td>$30,465</td>
</tr>
</tbody>
</table>

### 8. Other Assets

Other assets are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>$4,791</td>
<td>$4,580</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,754</td>
<td>2,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,545</td>
<td>$6,680</td>
</tr>
</tbody>
</table>
9. Claims Incurred and Provision for Unpaid Claims

**Net claims incurred**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current year</td>
<td>Prior years</td>
<td>Total</td>
<td>Current year</td>
</tr>
<tr>
<td>Gross claims incurred</td>
<td>$ 872,578</td>
<td>$(78,639)</td>
<td>$ 793,939</td>
<td>$ 838,307</td>
</tr>
<tr>
<td>Ceded claims incurred</td>
<td>(6,187)</td>
<td>114</td>
<td>(6,073)</td>
<td>(11,192)</td>
</tr>
<tr>
<td>Net claims incurred</td>
<td>$ 866,391</td>
<td>$(78,525)</td>
<td>$ 787,866</td>
<td>$ 827,115</td>
</tr>
</tbody>
</table>

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable costs of those claims transferred to the Auto Fund's various reinsurers pursuant to reinsurance contracts.

**Net provision for unpaid claims**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unpaid claims, beginning of year - discounted</td>
<td>$ 1,605,962</td>
<td>$ 1,556,393</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFAD and discount, beginning of the year</td>
<td>764,933</td>
<td>756,094</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unpaid claims, beginning of year - undiscounted</td>
<td>2,370,895</td>
<td>2,312,487</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments made during the year relating to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year claims</td>
<td>(216,485)</td>
<td>(208,170)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess relating to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year estimated unpaid claims</td>
<td>(78,525)</td>
<td>(29,110)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unpaid claims, prior years - undiscounted</td>
<td>2,075,885</td>
<td>2,075,207</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unpaid claims, current year</td>
<td>302,252</td>
<td>295,688</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unpaid claims, end of year - undiscounted</td>
<td>2,378,137</td>
<td>2,370,895</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFAD and discount, end of year</td>
<td>(759,020)</td>
<td>(764,933)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unpaid claims, end of year - discounted</td>
<td>$ 1,619,117</td>
<td>$ 1,605,962</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The net provision for unpaid claims of $1,619,117,000 (2017 – $1,605,962,000) consists of the gross provision for unpaid claims of $1,630,742,000 (2017 – $1,619,746,000) less unpaid claims recoverable from reinsurers of $11,625,000 (2017 – $13,784,000).
Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Auto Fund's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Auto Fund's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

Included in the above amount is a PFAD in the amount of $336,070,000 (2017 – $329,702,000). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claim development, reinsurance recoveries and future investment earnings.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Auto Fund determines the discount rate based upon the expected return of the investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 4.3% (2017 – 4.3%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

### Net unpaid claims

The net provision for unpaid claims is summarized by type of claim as follows:

<table>
<thead>
<tr>
<th>Gross Unpaid Claims</th>
<th>Reinsurance Recoverable</th>
<th>Net Unpaid Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injury accident benefits</td>
<td>$2,253,607</td>
<td>$2,269,530</td>
</tr>
<tr>
<td>Injury liability</td>
<td>75,769</td>
<td>66,639</td>
</tr>
<tr>
<td>Damage</td>
<td>59,550</td>
<td>48,540</td>
</tr>
<tr>
<td>PFAD</td>
<td>337,017</td>
<td>329,773</td>
</tr>
<tr>
<td>Effect of discounting</td>
<td>(1,095,201)</td>
<td>(1,094,736)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,630,742</td>
<td>$1,619,746</td>
</tr>
</tbody>
</table>

### Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the life insurers default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfill their obligations. As at March 31, 2018, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the life insurers from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $22,705,000 (2017 – $22,774,000). The net risk to the Auto Fund is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Auto Fund considers the possibility of default to be remote.
10. Property and Equipment

The components of the Auto Fund's property and equipment, as well as the related accumulated depreciation, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings</th>
<th>Buildings Components</th>
<th>Leasehold Improvements</th>
<th>Computer Hardware</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>$ 6,643</td>
<td>$ 48,081</td>
<td>$ 14,322</td>
<td>$ 1,194</td>
<td>$ 44,301</td>
<td>$ 114,541</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>376</td>
<td>14</td>
<td>164</td>
<td>3,592</td>
<td>4,146</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(406)</td>
<td>(406)</td>
</tr>
<tr>
<td><strong>At March 31, 2018</strong></td>
<td>6,643</td>
<td>48,457</td>
<td>14,336</td>
<td>1,358</td>
<td>47,487</td>
<td>118,281</td>
</tr>
<tr>
<td><strong>Accumulated depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>–</td>
<td>26,051</td>
<td>8,865</td>
<td>840</td>
<td>35,795</td>
<td>71,551</td>
</tr>
<tr>
<td>Depreciation</td>
<td>–</td>
<td>1,799</td>
<td>581</td>
<td>228</td>
<td>3,130</td>
<td>5,738</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(289)</td>
<td>(289)</td>
</tr>
<tr>
<td><strong>At March 31, 2018</strong></td>
<td>–</td>
<td>27,850</td>
<td>9,446</td>
<td>1,068</td>
<td>38,636</td>
<td>77,000</td>
</tr>
<tr>
<td><strong>Net book value at March 31, 2018</strong></td>
<td>$ 6,643</td>
<td>$ 20,607</td>
<td>$ 4,890</td>
<td>$ 290</td>
<td>$ 8,851</td>
<td>$ 41,281</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings</th>
<th>Buildings Components</th>
<th>Leasehold Improvements</th>
<th>Computer Hardware</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>$ 6,643</td>
<td>$ 46,868</td>
<td>$ 12,003</td>
<td>$ 1,194</td>
<td>$ 40,286</td>
<td>$ 106,994</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>1,213</td>
<td>2,319</td>
<td>–</td>
<td>4,931</td>
<td>8,463</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(916)</td>
<td>(916)</td>
</tr>
<tr>
<td><strong>At March 31, 2017</strong></td>
<td>6,643</td>
<td>48,081</td>
<td>14,322</td>
<td>1,194</td>
<td>44,301</td>
<td>114,541</td>
</tr>
<tr>
<td><strong>Accumulated depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>–</td>
<td>24,286</td>
<td>8,289</td>
<td>595</td>
<td>33,585</td>
<td>66,755</td>
</tr>
<tr>
<td>Depreciation</td>
<td>–</td>
<td>1,765</td>
<td>576</td>
<td>245</td>
<td>2,993</td>
<td>5,579</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(783)</td>
<td>(783)</td>
</tr>
<tr>
<td><strong>At March 31, 2017</strong></td>
<td>–</td>
<td>26,051</td>
<td>8,865</td>
<td>840</td>
<td>35,795</td>
<td>71,551</td>
</tr>
<tr>
<td><strong>Net book value at March 31, 2017</strong></td>
<td>$ 6,643</td>
<td>$ 22,030</td>
<td>$ 5,457</td>
<td>$ 354</td>
<td>$ 8,506</td>
<td>$ 42,990</td>
</tr>
</tbody>
</table>

Depreciation provided in the year is included in administrative expenses on the Statement of Operations. When an asset has been disposed, its original cost is removed from the financial statements along with any accumulated depreciation related to that asset.
11. Unearned Premiums

<table>
<thead>
<tr>
<th></th>
<th>Gross Unearned Premiums</th>
<th>Reinsurers’ Share of Unearned Premiums</th>
<th>Net Unearned Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned premiums,</td>
<td>$388,576</td>
<td>$384,294</td>
<td>$5,437</td>
</tr>
<tr>
<td>beginning of the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums written</td>
<td>937,308</td>
<td>933,530</td>
<td>9,665</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>(939,000)</td>
<td>(929,248)</td>
<td>(8,648)</td>
</tr>
<tr>
<td>Change in net unearned</td>
<td>(1,692)</td>
<td>4,282</td>
<td>1,017</td>
</tr>
<tr>
<td>premiums</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned premiums,</td>
<td>$386,884</td>
<td>$388,576</td>
<td>$6,454</td>
</tr>
<tr>
<td>end of the year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Net Investment Earnings

Components of investment earnings are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on</td>
<td>$72,864</td>
<td>$105,806</td>
</tr>
<tr>
<td>change in market value of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment fund distributions</td>
<td>57,949</td>
<td>26,723</td>
</tr>
<tr>
<td>Interest</td>
<td>24,964</td>
<td>25,235</td>
</tr>
<tr>
<td>Net realized gains on sale</td>
<td>6,582</td>
<td>15,835</td>
</tr>
<tr>
<td>of investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>6,526</td>
<td>6,125</td>
</tr>
<tr>
<td>Infrastructure limited</td>
<td>2,937</td>
<td>1,448</td>
</tr>
<tr>
<td>partnerships distributions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investment earnings</td>
<td>171,822</td>
<td>181,172</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(9,060)</td>
<td>(7,361)</td>
</tr>
<tr>
<td>Net investment earnings</td>
<td>$162,762</td>
<td>$173,811</td>
</tr>
</tbody>
</table>
Details of the net unrealized gains (losses) on change in market value of investments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds and debentures</td>
<td>$ (6,975)</td>
<td>$ (14,384)</td>
</tr>
<tr>
<td>Canadian common shares</td>
<td>(382)</td>
<td>22,248</td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>2,024</td>
<td>3,192</td>
</tr>
<tr>
<td>Investment funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td>43,873</td>
<td>69,966</td>
</tr>
<tr>
<td>Global small cap equity</td>
<td>13,560</td>
<td>14,226</td>
</tr>
<tr>
<td>Mortgage</td>
<td>(366)</td>
<td>(1,340)</td>
</tr>
<tr>
<td>Real estate</td>
<td>21,130</td>
<td>11,898</td>
</tr>
<tr>
<td></td>
<td>$ 72,864</td>
<td>$ 105,806</td>
</tr>
</tbody>
</table>

13. Other Income

The components of other income are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment option fees</td>
<td>$ 32,590</td>
<td>$ 31,625</td>
</tr>
<tr>
<td>Safe Driver Recognition program penalties</td>
<td>24,034</td>
<td>16,148</td>
</tr>
<tr>
<td>Net earnings on salvage sales</td>
<td>22,564</td>
<td>20,655</td>
</tr>
<tr>
<td>Total other income</td>
<td>$ 79,188</td>
<td>$ 68,428</td>
</tr>
</tbody>
</table>

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan that allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance.

The Auto Fund administers a salvage operation in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process.
Net earnings on salvage sales is comprised of:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salvage sales</td>
<td>$61,421</td>
<td>$56,940</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(34,509)</td>
<td>(31,982)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>26,912</td>
<td>24,958</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(4,687)</td>
<td>(4,699)</td>
</tr>
<tr>
<td>Other income</td>
<td>339</td>
<td>396</td>
</tr>
<tr>
<td>Net earnings on salvage sales</td>
<td>$22,564</td>
<td>$20,655</td>
</tr>
</tbody>
</table>

The Auto Fund maintains a Safe Driver Recognition program based on a safety rating scale. Drivers lose safety rating points for certain driving incidents. Drivers in the penalty zone (safety rating less than zero) are assessed a financial penalty for each incident they are responsible for. The further the incident moves them in the penalty zone, the higher the penalty they have to pay.


The Auto Fund, through its administrator SGI, has established an enterprise risk management policy. The Board of Directors approved this policy, and management is responsible for ensuring it is properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting from management.

Insurance risk arises with respect to the adequacy of the Auto Fund's policy premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Auto Fund's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk
The Auto Fund manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends.

Reinsurance
The Auto Fund also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Auto Fund to a maximum amount on any one loss on a calendar year as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile physical damage catastrophe</td>
<td>$15,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>(subject to filling an annual aggregate deductible of)</td>
<td>15,000</td>
<td>15,000</td>
</tr>
</tbody>
</table>
While the Auto Fund utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Auto Fund evaluates and monitors financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

**Actuarial Risk**

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Auto Fund’s experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims for the 10 most recent accident years as estimated at each reporting date. The Corporation changed its year end from December 31 to March 31, effective March 31, 2016. As a result, historical net ultimate loss estimates for the March 31, 2016 and prior accident years are not available.

<table>
<thead>
<tr>
<th>Net Ultimate Loss Estimates</th>
<th>(thousands of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at March 31, 2017</td>
<td>$535,865</td>
</tr>
<tr>
<td>Net Ultimate Loss</td>
<td></td>
</tr>
<tr>
<td>As at March 31, 2018</td>
<td>$537,524</td>
</tr>
<tr>
<td>Net provision for unpaid</td>
<td>$63,172</td>
</tr>
<tr>
<td>claims for the 10 most</td>
<td></td>
</tr>
<tr>
<td>recent accident years</td>
<td></td>
</tr>
<tr>
<td>Net discounted claims</td>
<td>$63,172</td>
</tr>
<tr>
<td>outstanding for accident</td>
<td></td>
</tr>
<tr>
<td>years 2007-2008 and prior</td>
<td></td>
</tr>
<tr>
<td>Loss adjusting expense</td>
<td></td>
</tr>
<tr>
<td>reserve</td>
<td></td>
</tr>
<tr>
<td>Other reconciling items</td>
<td></td>
</tr>
<tr>
<td>Net provision for unpaid</td>
<td>$63,172</td>
</tr>
<tr>
<td>claims</td>
<td></td>
</tr>
</tbody>
</table>

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The Auto Fund's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in its unpaid claims liabilities is as follows:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Sensitivity</th>
<th>Change to Net Provision for Unpaid Claims</th>
<th>Change to RSR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Discount rate + 100 bps</td>
<td>$ (87,101)</td>
<td>$ (88,294)</td>
<td>$ 18,818</td>
</tr>
<tr>
<td>Discount rate - 100 bps</td>
<td>99,328</td>
<td>99,400</td>
<td>(22,666)</td>
</tr>
<tr>
<td>Net loss ratio + 10%</td>
<td>73,327</td>
<td>72,853</td>
<td>(73,327)</td>
</tr>
<tr>
<td>Misestimate 1% deficiency</td>
<td>16,627</td>
<td>16,044</td>
<td>(16,627)</td>
</tr>
</tbody>
</table>

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

**Financial Risk**

The nature of the Auto Fund's operations results in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

Significant financial risks are related to the Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by SGI's Board of Directors. The SIP&G provides guidelines for the Auto Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of fixed income, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on the goals stated in the SIP&G.

The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio consists of short-term investments, bonds and debentures, and the mortgage investment fund, while the Return Seeking Portfolio holds Canadian common shares, the global equity, global small cap equity and real estate investment funds, and the infrastructure limited partnerships. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years, with the remaining long-tail liabilities covered by the Return Seeking Portfolio.

**Credit risk**

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed is limited to the carrying value of those financial assets summarized as follows:

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 23,389</td>
<td>$ 38,017</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>237,841</td>
<td>218,661</td>
</tr>
<tr>
<td>Fixed income investments</td>
<td>1,141,757</td>
<td>1,172,695</td>
</tr>
</tbody>
</table>

1 Includes short-term investments, bonds and debentures, and the mortgage investment fund.
In addition, the Auto Fund is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $11,600,000 (2017 – $29,783,000) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable relate primarily to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, along with motor licence issuers, within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less.

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$ 232,444</td>
<td>$ 214,048</td>
</tr>
<tr>
<td>30 - 59 days</td>
<td>2,891</td>
<td>2,782</td>
</tr>
<tr>
<td>60 - 90 days</td>
<td>2,355</td>
<td>1,674</td>
</tr>
<tr>
<td>Greater than 90 days</td>
<td>24,004</td>
<td>16,798</td>
</tr>
<tr>
<td>Subtotal</td>
<td>261,694</td>
<td>235,302</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(23,853)</td>
<td>(16,641)</td>
</tr>
<tr>
<td>Total</td>
<td>$ 237,841</td>
<td>$ 218,661</td>
</tr>
</tbody>
</table>

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver’s licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for doubtful accounts, beginning of year</td>
<td>$ 16,641</td>
<td>$ 14,940</td>
</tr>
<tr>
<td>Accounts written off</td>
<td>(5,751)</td>
<td>(2,750)</td>
</tr>
<tr>
<td>Current period provision</td>
<td>12,963</td>
<td>4,451</td>
</tr>
<tr>
<td>Allowance for doubtful accounts, end of year</td>
<td>$ 23,853</td>
<td>$ 16,641</td>
</tr>
</tbody>
</table>

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Auto Fund of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor’s. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage investment fund. It is managed through an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.
Credit ratings for bonds and debenture investments are as follows:

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>2018 Fair Value (thousands of $)</th>
<th>Makeup of Portfolio (%)</th>
<th>2017 Fair Value (thousands of $)</th>
<th>Makeup of Portfolio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$385,303</td>
<td>41.1</td>
<td>$295,152</td>
<td>31.0</td>
</tr>
<tr>
<td>AA</td>
<td>303,503</td>
<td>32.3</td>
<td>534,764</td>
<td>56.1</td>
</tr>
<tr>
<td>A</td>
<td>201,516</td>
<td>21.5</td>
<td>89,692</td>
<td>9.4</td>
</tr>
<tr>
<td>BBB</td>
<td>48,028</td>
<td>5.1</td>
<td>33,665</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>$938,350</td>
<td>100.0</td>
<td>$953,273</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The Auto Fund's investment in a mortgage investment fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

**Market risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk impacts the value of the Auto Fund's investments.

**Interest rate risk**

The Auto Fund is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage investment fund. Changes in interest rates also impact the amount of discounting included in the provision for unpaid claims. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impacts:

<table>
<thead>
<tr>
<th></th>
<th>100 basis point increase (thousands of $)</th>
<th>100 basis point decrease (thousands of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Net investment earnings</td>
<td>$ (68,283)</td>
<td>$ (72,231)</td>
</tr>
<tr>
<td>Net claims incurred</td>
<td>(87,101)</td>
<td>(88,294)</td>
</tr>
<tr>
<td>Net increase (decrease) to RSR</td>
<td>18,818</td>
<td>16,063</td>
</tr>
</tbody>
</table>
Foreign exchange risk

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure in the Return Seeking Portfolio to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in the Rate Stabilization Reserve:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Maximum Exposure (%)</th>
<th>Current Exposure (%)</th>
<th>10% change in exchange rates (thousands of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>52.0</td>
<td>44.0</td>
<td>$60,043</td>
</tr>
<tr>
<td>Global small cap equities</td>
<td>20.0</td>
<td>15.5</td>
<td>21,145</td>
</tr>
<tr>
<td>Infrastructure limited partnerships</td>
<td>20.0</td>
<td>4.4</td>
<td>6,006</td>
</tr>
</tbody>
</table>

As the global equity funds and the infrastructure limited partnerships are classified as fair value through profit and loss, unrealized changes due to foreign currency are recorded in the Statement of Operations. There is no exposure to foreign exchange risk within the Auto Fund’s bond and debenture portfolio. As well, no more than 10% of the market value of the bond and debenture portfolio shall be invested in bonds or debentures of foreign issuers. The Auto Fund’s exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian and global markets. At March 31, 2018, equities comprise 43.7% (2017 – 38.9%) of the carrying value of the Auto Fund’s total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund’s equity portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund’s equity price risk is assessed using Value at Risk, a statistical technique that measures the potential change in value of an asset class. It is calculated over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).
The Auto Fund's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk
Liquidity risk is the risk that the Auto Fund is unable to meet its financial obligations as they fall due. Cash resources of the Auto Fund are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flow through cash generated from operations as well as cash generated from investing activities.

The following tables summarize the estimated contractual timing of cash flows on an undiscounted basis arising from the Auto Fund's financial assets and liabilities. The Auto Fund has contractual commitments to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile collisions.
The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $836,000 (2017 – $30,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $758,184,000 (2017 – $764,963,000) (note 9).

### 15. Capital Management

The Auto Fund has a capital management policy, approved by the SGI Board of Directors. The primary objective of capital management for the Auto Fund is to maintain a level of capital in the Rate Stabilization Reserve sufficient to cushion the Auto Fund from the volatility inherent in investment and underwriting operations, and ensure a positive Rate Stabilization Reserve without the need for excessive rate increases for Auto Fund customers.

The Auto Fund's legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from operations, along with income generated from its investment portfolio, to fund future operations.

The Auto Fund manages capital in accordance with its capital management policy using a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.
16. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

<table>
<thead>
<tr>
<th>(thousands of $)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$ (19,180)</td>
<td>$ 4,618</td>
</tr>
<tr>
<td>Unpaid claims recoverable from reinsurers</td>
<td>2,159</td>
<td>(10,316)</td>
</tr>
<tr>
<td>Reinsurers’ share of unearned premiums</td>
<td>(1,017)</td>
<td>(1,855)</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>472</td>
<td>(286)</td>
</tr>
<tr>
<td>Other assets</td>
<td>135</td>
<td>(795)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>12,804</td>
<td>2,717</td>
</tr>
<tr>
<td>Premium taxes payable</td>
<td>(78)</td>
<td>225</td>
</tr>
<tr>
<td>Amounts due to reinsurers</td>
<td>28</td>
<td>3,825</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>(1,692)</td>
<td>4,283</td>
</tr>
<tr>
<td>Provision for unpaid claims</td>
<td>10,996</td>
<td>59,885</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 4,627</td>
<td>$ 62,301</td>
</tr>
</tbody>
</table>

17. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as “related parties”). All transactions are settled under normal trade terms. The Auto Fund has elected to take a partial exemption under IAS 24, Related Party Disclosures which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

SGI acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of a cost allocation formula. These are operating transactions incurred in the normal course of operations. Amounts incurred by SGI and charged to the Auto Fund were $142,986,000 (2017 – $147,595,000) and accounts payable were $3,080,000 (2017 – $1,060,000).

Certain Board members are partners in organizations that provided $277,000 (2017 – $169,000) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations.

Other related party transactions are described separately in the notes.

18. Contingencies

In common with the insurance industry in general, the Auto Fund is subject to litigation arising in the normal course of conducting its insurance business. The Auto Fund is of the opinion that litigation will not have a significant effect on its financial position or results of operation.
## Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Catastrophe reinsurance</strong></td>
<td>A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.</td>
</tr>
<tr>
<td><strong>Claims incurred</strong></td>
<td>The total for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.</td>
</tr>
<tr>
<td><strong>Combined ratio</strong></td>
<td>A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.</td>
</tr>
<tr>
<td><strong>GAAP</strong></td>
<td>Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.</td>
</tr>
<tr>
<td><strong>Gross premiums written (GPW)</strong></td>
<td>Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.</td>
</tr>
<tr>
<td><strong>IBNR reserve</strong></td>
<td>Abbreviation for ‘incurred but not reported’. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.</td>
</tr>
<tr>
<td><strong>IFRS</strong></td>
<td>International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).</td>
</tr>
<tr>
<td><strong>Loss ratio (Claims ratio)</strong></td>
<td>Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.</td>
</tr>
<tr>
<td><strong>Motor licence issuer</strong></td>
<td>A person who negotiates driver's licences and vehicle licence/insurance on behalf of The Auto Fund and who receives a fee from The Auto Fund for licences placed and other services rendered.</td>
</tr>
<tr>
<td><strong>Net premiums earned (NPE)</strong></td>
<td>The portion of net premiums written that is recognized for accounting purposes as revenue during a period.</td>
</tr>
<tr>
<td><strong>Net premiums written (NPW)</strong></td>
<td>Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Premium</td>
<td>The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.</td>
</tr>
<tr>
<td>Premium tax</td>
<td>A tax collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.</td>
</tr>
<tr>
<td>Redundancy &amp; deficiency</td>
<td>Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.</td>
</tr>
<tr>
<td>Underwriting profit/loss</td>
<td>The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.</td>
</tr>
</tbody>
</table>
Governance

Please visit the SGI website at www.sgi.sk.ca for information on governance for the Saskatchewan Auto Fund, including:

- governance guidelines
- Board of Directors’ photos and bios, committee members, frequency of meetings and terms of reference
- SGI executives’ photos and bios